

The S-curve: Understanding the Dynamics of Worldwide Financial Liberalization

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Abstract

Using a novel database of domestic financial reforms in 90 countries over 1973-2014, we identify a remarkable decade of global financial liberalization taking place in late-80s to late-90s. We explore this finding in the context of a broader phenomenon of financial liberalization that followed an S-curve path: financial reforms were slow and gradual in early periods, accelerated during the 1990s, and slowed down again after 2000. Subsequently we employ a learning model that successfully explains these facts. Policymakers update their beliefs about the effects of financial reforms on growth by learning from their own experiences and those in other countries.

JEL: *O11, 050, C11, C54*

Keywords: financial liberalization, informational diffusion, cross-country learning, S-curve dynamics, political costs, economic growth, financial crisis

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